

FDIC State Profile

Winter 2004

Minnesota

Minnesota's employment continued to grow in the third quarter of 2004.

- Minnesota's economy is exhibiting evidence of a sustained recovery, which should continue in 2005. Job growth in the third quarter contributed to the largest six-month employment growth in nearly four years. In the second and third quarters of 2004, the state's economy recovered 18,200 of the 40,100 net jobs lost in the downturn (See Chart 1).
- Performance in the manufacturing sector remained weak, however, as slight job losses followed three consecutive quarters of moderate growth. Only 4,700 of the 57,600 manufacturing jobs lost during the downturn have been recovered.
- The increase in the unemployment rate to 4.6 percent reflects the re-entry of workers—motivated to look for work by the incipient recovery—into the labor force.

Banking performance remains solid.

- As the Minnesota economy has rebounded, so have bank asset quality and loan volume (See Table 1). After oscillating between 66.1 and 67.7 percent over the previous four years, loans as a percent of assets surged 3.1 percentage points from one year ago to 69.2 percent at third quarter 2004.
- The proportion of unprofitable, established institutions in Minnesota was 2.4 percent, similar to ratios in the preceding five years.

Minnesota's farm sector enjoyed strong performance in 2004, although a slight decline is likely in 2005.

- Relatively high prices for all commodities produced in Minnesota's diversified agricultural economy will likely result in high income for the state's farm sector in 2004 (See Table 2).
- Strong demand has elevated prices in the cattle and hog sectors. A decline in cow numbers has supported higher milk prices, and strong feed demand from the livestock sector has contributed to higher corn and soybean prices.

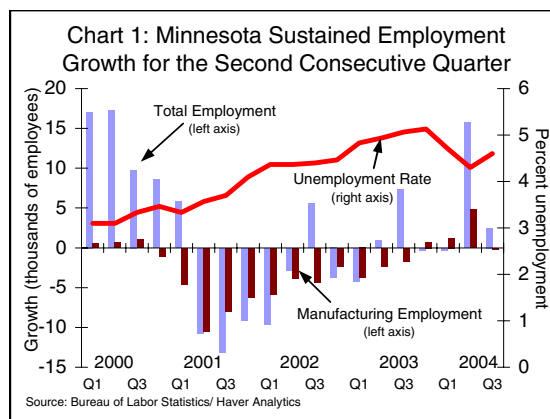


Table 1: Asset Quality Improved While Earnings and Capital Increased

	September				
	2004	2003	2002	2001	2000
Capital					
Tier 1 Leverage Capital Ratio	9.28	9.09	9.09	8.82	8.92
Asset Quality					
Past Due Loan Ratio	1.50	1.83	1.94	1.99	1.74
Net Charge-off Rate	0.04	0.06	0.07	0.06	0.03
Earnings					
Pretax Return on Assets	1.65	1.64	1.70	1.61	1.70
Net Interest Margin	4.37	4.34	4.53	4.40	4.50

Source: FDIC. Figures are median values.

Table 2: Commodity Prices Are Likely to Decline in 2005

	2002	2003	Estimated 2004	Projected 2005	Proportion of State's Ag Revenue
Corn	1.97	2.32	2.42	1.90	19%
Soybeans	4.25	5.53	7.34	4.95	19%
Wheat	2.78	3.56	3.40	3.35	4%
Cattle	67.50	84.69	84.22	85.00	12%
Hogs	34.92	39.45	51.67	49.00	15%
Milk	12.10	12.45	16.00	13.80	12%

Note: Grain prices are for marketing year of each crop.
Crop quantities are per bushel; livestock and milk are per hundredweight
Source: United States Department of Agriculture/
World Agriculture Supply and Demand Estimates November 12, 2004

State Profile

- While 2004 net farm income should be high, lower farm income is likely in 2005. Record corn and soybean harvests nationwide in 2004 should result in significantly lower prices for those crops going forward. In addition, projected increases in cow numbers in 2005 are expected to begin to depress milk prices.

The long-term trend of core funding erosion has resumed.

- In the 1990s, a confluence of competitive factors, ranging from rapidly increasing stock prices to strong deposit growth in large banks and credit unions, made core deposits more difficult to acquire for community institutions.¹ As a result, core funding in these institutions dropped steadily in the 1990s (See Chart 2)
- Stock market weaknesses in 2001 and 2002 helped to offset some core funding losses temporarily, as funds flowed from the markets into the safety of insured deposits.
- However, recent improvement in the stock markets again is luring funds out of community banks, and the long-term downward trend in core funding appears to have resumed. Core funds now make up just 74.2 percent of community bank assets in Minnesota, an all-time low.

The number of rural bank offices has increased despite depopulation.

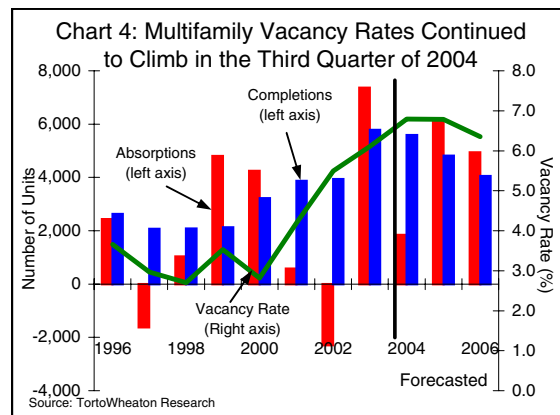
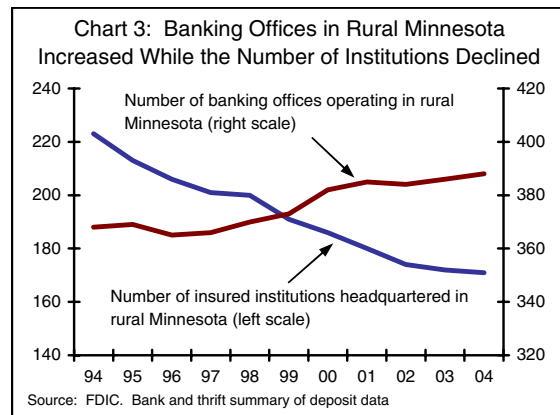
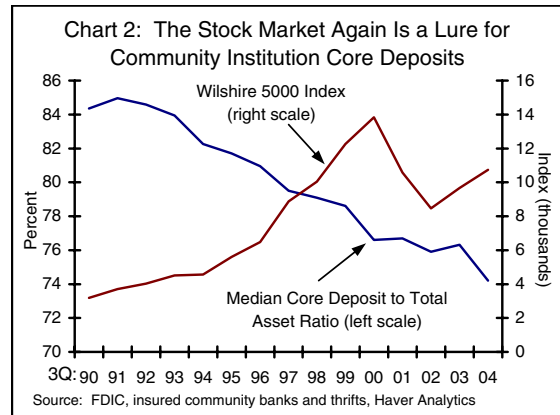
- With lower population and economic growth, and less new bank activity, the rate of decline in the number of hometown institutions in rural Minnesota exceeds that of Minnesota's urban areas – about 2.6 percent versus 1.5 percent per year over the past decade.
- However, rural Minnesota has seen an increase in its banking presence despite a net loss of 52 headquartered institutions. The number of banking offices operating in rural Minnesota increased from 368 to 388 in the 10 years ending June 2004 (See Chart 3).
- Faced with lower market growth prospects and seeking opportunity, rural Minnesota institutions are increasingly operating branches in urban areas. As a result, the proportion of their branches located in urban areas has increased from 8.7 percent in 1994 to 20.6 percent in 2004. Currently, 35 rural institutions, representing 21 percent of all rural Minnesota institutions, are operating 74 branch offices in urban areas.

Multifamily housing vacancies in Minneapolis are expected to peak in 2004.

- Vacancy rates for multifamily housing peaked in the third quarter at 7.2 percent for the Minneapolis metropolitan

area. Diminished demand and increased supply have pushed vacancy rates well above the nation's average of 5.9 percent (See Chart 4).

- During the past two years, the Minneapolis metropolitan area has added an additional 12,000 units to its base stock, while only half have been rented or leased.
- In 2005, new completions are expected to decline and absorption is expected to increase, bringing projected vacancy rates down to 6.8 percent.



¹"Core deposits" include savings, checking, and money market accounts, as well as time deposits of less than \$100,000. These are usually considered more stable funding sources

State Profile

Minnesota at a Glance

General Information	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Institutions (#)	483	487	488	506	513
Total Assets (in thousands)	62,695,225	111,108,911	108,864,759	104,202,770	183,978,701
New Institutions (# < 3 years)	16	13	14	18	20
New Institutions (# < 9 years)	42	38	32	36	34
Capital	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Tier 1 Leverage (median)	9.28	9.09	9.09	8.82	8.92
Asset Quality	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Past-Due and Nonaccrual (median %)	1.50%	1.83%	1.94%	1.99%	1.74%
Past-Due and Nonaccrual >= 5%	35	50	58	50	29
ALLL/Total Loans (median %)	1.24%	1.27%	1.26%	1.26%	1.25%
ALLL/Noncurrent Loans (median multiple)	1.84	1.74	1.50	1.58	2.08
Net Loan Losses/Loans (aggregate)	0.12%	0.15%	0.26%	0.27%	0.55%
Earnings (Year-to-Date Annualized)	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Unprofitable Institutions (#)	22	22	18	26	21
Percent Unprofitable	4.55%	4.52%	3.69%	5.14%	4.09%
Return on Assets (median %)	1.39	1.31	1.32	1.19	1.20
25th Percentile	0.90	0.85	0.88	0.77	0.85
Net Interest Margin (median %)	4.37%	4.34%	4.53%	4.39%	4.50%
Yield on Earning Assets (median)	5.86%	6.20%	6.98%	8.20%	8.43%
Cost of Funding Earning Assets (median)	1.47%	1.82%	2.48%	3.84%	3.89%
Provisions to Avg. Assets (median)	0.11%	0.12%	0.14%	0.13%	0.11%
Noninterest Income to Avg. Assets (median)	0.61%	0.65%	0.61%	0.61%	0.60%
Overhead to Avg. Assets (median)	2.95%	2.97%	2.97%	2.97%	2.93%
Liquidity/Sensitivity	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
Loans to Deposits (median %)	84.14%	78.20%	80.27%	77.71%	78.20%
Loans to Assets (median %)	69.20%	66.09%	67.70%	66.51%	66.65%
Brokered Deposits (# of Institutions)	170	136	136	136	135
Bro. Deps./Assets (median for above inst.)	3.81%	3.11%	3.81%	2.82%	3.56%
Noncore Funding to Assets (median)	15.61%	12.94%	12.86%	12.44%	12.78%
Core Funding to Assets (median)	72.69%	75.52%	75.29%	75.70%	75.66%
Bank Class	Sep-04	Sep-03	Sep-02	Sep-01	Sep-00
State Nonmember	321	318	318	330	337
National	113	120	121	126	127
State Member	27	27	27	27	28
S&L	10	10	10	10	10
Savings Bank	12	12	12	13	11
Stock and Mutual SB	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	305	23,772,762	63.15%	37.92%	
Minneapolis-St Paul MN-WI	120	32,796,553	24.84%	52.31%	
St Cloud MN	22	2,815,184	4.55%	4.49%	
Duluth-Superior MN-WI	16	1,219,558	3.31%	1.95%	
Rochester MN	6	1,231,661	1.24%	1.96%	
Grand Forks ND-MN	6	377,342	1.24%	0.60%	
La Crosse WI-MN	5	237,035	1.04%	0.38%	
Farao-Moorhead ND-MN	3	245,130	0.62%	0.39%	